

## **CFA® SAMPLE QUESTION - LEVEL I** Corporate Finance

 Q: A company has \$5 million in debt outstanding with a coupon rate of 12%. Currently the Yield to Maturity (YTM) on these bonds is 14%.
If the firm's tax rate is 40%. What is the company's after tax-cost of debt?

**CORRECT ANSWER:** 

**6** 8.4%

kd (1-t) = (0.14) (1-0.4) = 8.4%

For the cost of debt of debt instrument, remember you need to use the YTM (yield to maturity) for calculation. And also remember to consider the Tax-shield effect (i.e. 1-t)



HARD

INTERMEDIATE

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